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McCRORY CORPORATION



1962 ANNUAL REPORT



McCRORY CORPORATION

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1962 ANNUAL REPORT

COVER:

McCrory's Newest Distribution Center, York, Pennsylvania.
Story on page 24.

**BOARD
OF
DIRECTORS**

PATRICK J. CLIFFORD
J. NEAL DOW
MILTON HELLER
N. BAXTER JACKSON
BERNARD KOBROVSKY
HAROLD M. LANE
LEONARD C. LANE
JAMES LUTZ
ALFRED T. MANACHER
FRANK J. MANHEIM
DONALD L. MILLER
BERT R. PRALL
MESHULAM RIKLIS
HERBERT D. SILVER
LEONARD SPANGENBERG
HARRY H. WACHTEL
JACOB S. WEINSTEIN

EXECUTIVE COMMITTEE

LEONARD SPANGENBERG, *Chairman*

HAROLD M. LANE	BERT R. PRALL
LEONARD C. LANE	MESHULAM RIKLIS
JAMES LUTZ	HARRY H. WACHTEL
FRANK J. MANHEIM	JACOB S. WEINSTEIN

OFFICERS

MESHULAM RIKLIS	<i>Chairman of Board of Directors</i>
JAMES LUTZ	<i>President</i>
HARRY H. WACHTEL	<i>Vice Chairman of Board of Directors & Executive Vice President</i>
J. NEAL DOW	<i>Senior Vice President & President of McCrory-McLellan-Green</i>
HERBERT D. SILVER	<i>Financial Vice President & Treasurer</i>
GEORGE SCHWARTZ	<i>Vice President—Merchandising</i>
HAROLD M. LANE	<i>Chairman of Lerner Stores Corporation</i>
BERT R. PRALL	<i>Vice President & President of McCrory Credit Corporation</i>
JULIUS SANDITEN	<i>Vice President & President of Oklahoma Tire & Supply</i>
EDWARD L. MARKS	<i>Vice President & President of National Shirt Shops</i>
HAROLD M. LANE, JR.	<i>Vice President</i>
GRAHAM MAGEE	<i>Vice President</i>
HARRY J. TOFEL	<i>Vice President</i>
GEORGE A. GREENBERG	<i>Vice President</i>
SEYMOUR GREENE	<i>Secretary</i>
STANLEY I. ROSENFELD	<i>Comptroller</i>

McCRORY CORPORATION

OPERATING EXECUTIVE COMMITTEE

	JAMES LUTZ, <i>Chairman</i>
ROY F. COPPEDGE	EDWARD L. MARKS
J. NEAL DOW	BERT R. PRALL
HAROLD M. LANE	MESHULAM RIKLIS
GRAHAM MAGEE	JULIUS SANDITEN
	PETER F. PANTLIN, <i>Secretary</i>

COMMITTEE CHAIRMEN

BERNARD KOBROVSKY	<i>Salary and Compensation Committee</i>
LEONARD C. LANE	<i>Stock Option Committee</i>
JAMES LUTZ	<i>Operating Executive Committee</i>
LEONARD SPANGENBERG	<i>Executive Committee</i>
JACOB S. WEINSTEIN	<i>Acquisition Committee</i>

AUDITORS

ARTHUR ANDERSEN & Co., New York, N. Y.

GENERAL COUNSEL

WACHTEL & MICHAELSON, New York, N. Y.

TRANSFER AGENTS

Common Stock	{	Chemical Bank New York Trust Company and
5½ % Preference B Stock		First National Bank of Chicago
4½ % Preference B Stock		
3½ % Preferred Stock	{	Morgan Guaranty Trust Co. of New York and
\$6 Preference Stock		First National Bank of Chicago

REGISTRARS

Common Stock	{	Morgan Guaranty Trust Co. of New York and
5½ % Preference B Stock		Continental Illinois National Bank and Trust Co. of Chicago
4½ % Preference B Stock		The Chase Manhattan Bank and
3½ % Preferred Stock		Continental Illinois National Bank and Trust Co. of Chicago
\$6 Preference Stock	{	Chemical Bank New York Trust Company and
		Continental Illinois National Bank and Trust Co. of Chicago

EXECUTIVE OFFICES

711 FIFTH AVENUE, NEW YORK 22, N. Y.

The Annual Meeting of Stockholders will be held at the office of the Corporation, Bank of Delaware Building, Corner 9th & Market Streets, Wilmington, Delaware, on Thursday, May 2, 1963, at 12 o'clock noon, Wilmington time. Each stockholder entitled to vote thereat will receive by mail a formal notice of meeting, together with proxy statement and form of proxy, on or about April 12, 1963, at which time proxies will be solicited by order of the Board of Directors.

DIVISIONAL OFFICERS

MCCRORY-MCLELLAN-GREEN STORES

J. NEAL DOW	President
L. C. SHOCKLEY	Senior Vice President
GEORGE A. RICHNER	Senior Vice President
JAMES F. BARNARD	Vice President
C. F. CARTER, JR.	Vice President
MILES ELLIS	Vice President
DAVID D. GREENWALD	Vice President
J. F. KING	Vice President
R. O. KRISTIANSEN	Vice President
BERNARD ORINGER	Vice President
H. EDWARD REEBER	Vice President
E. C. WEYBURN	Vice President
C. R. PURDON	Comptroller

OFFICE: 31-39 WEST 34TH STREET, NEW YORK, N.Y.

WAREHOUSES: NEW YORK, N.Y.—BROOKLYN, N.Y.—HUNTINGDON, PA.
YORK, PA.—CHICAGO, ILL.—OKLAHOMA CITY, OKLA.

LERNER SHOPS

HAROLD M. LANE	<i>Chairman of Board of Directors</i>
STANLEY H. KUNSERG	<i>President</i>
HAROLD M. LANE, JR.	<i>Executive Vice President</i>
GRAHAM MAGEE	<i>Senior Vice President & Secretary</i>
HAROLD F. MILLER	<i>Senior Vice President</i>
D. JOHN PALLADINO	<i>Vice President & Treasurer</i>
BENJAMIN J. TIMONER	<i>Vice President</i>
MILTON SEEGAL	<i>Vice President</i>
ROBERT L. KRILL	<i>Vice President</i>
HAROLD GREENE	<i>Vice President</i>
EUGENE SHAW	<i>Vice President</i>
MELVIN J. REDMOND	<i>Vice President</i>
KARL MARGOLIES	<i>Vice President</i>
NATHAN B. EPSTEIN	<i>Vice President</i>
SAMUEL S. BRAND	<i>Vice President</i>
DAVID D. GREENWALD	<i>Vice President</i>
JACOB J. SCHER	<i>Vice President</i>

OFFICE: 354 PARK AVENUE SOUTH, NEW YORK, N.Y.

NATIONAL SHIRT SHOPS

EDWARD L. MARKS	<i>President</i>
H. S. APTER	<i>Financial Vice President & Treasurer</i>
PHILLIP BLUME	<i>Vice President—Merchandising</i>
F. J. TYRRELL	<i>Secretary</i>
A. SCHWARTZ	<i>Assistant Treasurer & Assistant Secretary</i>

OFFICE: 19 WEST 34TH STREET, NEW YORK, N.Y.

OTASCO-ECONOMY STORES

MAURICE SANDTEN	<i>Chairman</i>
JULIUS SANDTEN	<i>President</i>
ELY G. SANDTEN	<i>Senior Vice President</i>
ABE BRAND	<i>Vice President</i>
SAMUEL H. MINSKY	<i>Secretary</i>
HERMAN SANDTEN	<i>Treasurer</i>

OFFICE: 6901 EAST PINE STREET, TULSA, OKLA.

WAREHOUSES: TULSA, OKLA.—LITTLE ROCK, ARK.—ATLANTA, GA.

CASSELS UNITED STORES

PAUL SWAYNGHAM *Vice President & Operating Manager*

OFFICE AND WAREHOUSE: EASLEY, S.C.

Mc CRORY CORPORATION
711 FIFTH AVENUE
NEW YORK 22

TO OUR STOCKHOLDERS:

We summarize with pride the high points of our 1962 operations.

Operating earnings of McCrory Corporation last year increased 15 per cent on a sales gain of 3.1 per cent to establish a new volume peak.

McCrory Corporation earned \$5,373,000 on \$554,000,000 of net sales for the year ended December 31, 1962, after deducting minority interests of \$150,000.

The earnings include \$1,561,000 of special gain arising from the sale of realty.

Based on 5,279,082 shares of common stock outstanding at the year end (after \$1,380,000 of preferred and preference dividends) per share common stock earnings amounted to 76 cents.

1962 was the first full year of operations of all of McCrory's major units —

Lerner Shops (a popular-priced women's and children's wear chain)

McCrory-McLellan-Green and Cassels (variety stores)

National Shirt Shops (a popular-priced men's and boys' clothing and haberdashery chain)

Otasco-Economy Auto Stores (a home and auto supply chain)

A comparison of 1962 results with 1961 results, reconstructed to include all major units for the full year of 1961, and exclusive of special gains, shows sales of \$554,000,000 in 1962, compared with \$538,000,000 in 1961, an increase of 3.1%; and an increase in operating income of 15%, to \$3,820,000 in 1962 from \$3,340,000 the previous year.

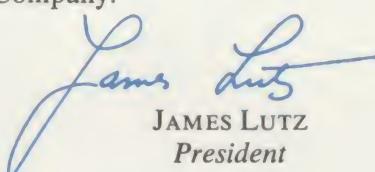
Cash flow (cash earnings) generated from operations during 1962 were \$14,000,000, or \$2.40 per common share, exclusive of capital gain and after preferred dividends. Included therein is depreciation and amortization of \$10,000,000.

Significant balance sheet items at the year end were cash of \$21,000,000; a net worth amounting to \$120,860,000 or \$18.23 per common share; and working capital of \$75,200,000, a ratio of 2.2 to 1.

It is our belief that the upward trend of sales and profits will continue to manifest itself when the operations for 1963 are compared with those of the year just completed.

We are of the opinion that economic conditions for the year 1963 will lend themselves to further improvements in our sales and profits over last year.

To our Stockholders, we extend our thanks for their continued confidence in the success and growth of their Company.



JAMES LUTZ
President



MESHULAM RIKLIS
Chairman of the Board

McCRORY CORPORATION

LERNER SHOPS McCRORY-MCLELLAN-GREEN STORES

Recalling the objective originally announced when the new McCrory Corporation came into being in 1960, that of establishing "a progressive, diversified merchandising organization," we can now point to a record of substantial progress toward attaining that objective.

From July 1960 through the end of 1961, (1) the four major units which now comprise McCrory Corporation were acquired, and (2) a new top management organization of exceptional talent and experience was built at the corporate level.

The year 1962 was to be—and indeed was—a year of consolidation and expansion of these elements into a new, dynamic and profitable entity, into a company with resources and leadership at the top and continued vigor at the divisional level.

These divisions were in existence as separate units before McCrory Corporation first became a legal entity in 1960. It was necessary to preserve the qualities that made these seasoned units and their experi-

enced people successful in the past, and at the same time to integrate them into a single team.

We are proud that while this integration was being achieved, we succeeded in preserving and enhancing the stature of Lerner Shops, McCrory-McLellan-Green Stores, National Shirt Shops and Otasco-Economy Auto Stores in their respective fields.

Our approach to coordination has been flexible, always taking into account individual strengths and advantages. A few specific examples will highlight this approach:

(1) We have used our resources to accelerate the growth of those divisions which show the greatest return on investment and the highest percentage of profit in relation to sales. Thus Otasco-Economy Auto Stores has been enabled to develop and expand operations, and earn profits, at a greater rate as part of McCrory Corporation than could have been achieved standing alone.

(2) Our combination stores program effectively

NATIONAL SHIRT SHOPS OTASCO-ECONOMY STORES

utilizes the skills and experience of our different divisions. The success of those pilot units now in operation has been encouraging, and development of additional units for 1963 has been accelerated. A further extension of this combination program is the McCrory Village, described below in this report, which is scheduled to open in Poughkeepsie, New York, in May, 1963.

(3) We are now able to provide centralized credit, warehousing, and managerial training programs for the benefit of all divisions.

(4) 1962 also saw the achievement of over-all administrative and financial coordination, with their attendant benefits and tangible savings.

The results for 1962 reflect the correctness of management's approach. While every division had record sales last year, we are particularly proud of the profit performance of the Lerner Shops, National Shirt Shops and Otasco-Economy Divisions: during 1962 Lerner Shops turned in its highest profits for the

past fourteen years; National Shirt Shops' 1961 profits were doubled; and Otasco-Economy achieved the most successful year in its history.

While the variety stores division also increased its sales and contributed significantly to the profits of the company, management is hard at work to achieve the necessary changes and improvements in this division which will assure future progress. To this end, with a view to reducing the high cost of distribution of the many small items historically carried by variety stores, the Company embarked in 1962 upon a program of major changes in its distribution system. On April 1, 1963, McCrory Corporation opened in York, Pennsylvania, the first of its major distribution centers. (See cover photograph, and details on page 24 of this report.)

In the year 1963, we again rely upon all of our dedicated employees and the management of our Company and upon our many suppliers to build upon the achievements of last year and surpass them.

LERNER SHOPS



The new store at Walt Whitman Center, Huntington, Long Island.

LERNER SHOPS DIVISION



A complete selection of women's and children's apparel.

The year 1962 witnessed a successful continuation of Lerner Shops' history of steady growth. Sales for the year achieved the highest volume in the Lerner Shops' forty-four years of operations, resulting from increased sales in the previously established stores, as well as the sales produced in the 14 units which were opened during the year. The net profits resulting from this increase has been most gratifying and the highest since 1948.

During the year, nine stores had major improvements, many others were partially refurbished and refixedure, and two old stores were closed. At the end of the year there were 323 Lerner Shops in operation. In addition, the Division continued to operate its three Lanes stores which are large units operated on a low markup, high volume basis designed to produce a high rate of sales. They carry large stocks of fashions for men, women and children and, in addition, complete stocks of household wares, appliances, television,



Bright and spacious stores make for easy and comfortable shopping.

radio, stereophonic equipment, domestics, drugs and cosmetics, as well as many other lines of merchandise which are in public demand.

The Division's credit and charge account operations continued to expand and facilities were established in several additional stores. By the end of the year these facilities were available in most Lerner Shops throughout the country. Experimentation with central and regional charge account offices continued and another such office was opened in New York City. Plans are currently under way to employ these facilities in the credit and charge account operations of the other divisions of the Corporation.

Expansion plans for the current year contemplate the opening of 15 new units. Three of these will be in Puerto Rico, bringing the total number of Lerner Shops in operation on that fast-growing island to seven. The Division's plans for expansion continue to

be directed mainly toward suburban rather than downtown locations. Inasmuch as new suburban locations are practically always in large shopping centers which are built by a developer, the opening dates of such units are subject to the delays inherent in large construction projects.

It is our belief that conditions during the coming year will be favorable for the Division's type of operations and, therefore, we look forward with confidence to another year of satisfactory progress.

We again express our sincere appreciation to our more than 10,000 Lerner Shops employees and executives for their continued devotion during the past year, and, likewise, to our hundreds of suppliers whose splendid cooperation has been so important a factor in making 1962 a memorable success. We look forward to continued growth and success in 1963 as an integral part of McCrory Corporation.

McCRORY-MCELLAN-GREEN STORES DIVISION

At the end of 1962, McCrory-McLellan-Green Stores Division had in operation 598 variety stores in 38 states and the District of Columbia, plus 97 stores in its Mobile and Cassels Divisions. During 1962, 15 new stores were opened, 61 stores were modernized with major rehabilitation, a number of others were remodeled to a lesser degree, and 13 stores were closed.

All of the new stores opened in 1962 presented in varying degree the "new image" of McCrory Variety Stores. Merchandise layout and assortments, store fixtures and decor have been geared to the objective of making our stores more convenient and more pleasant places to shop. Outstanding in this connection, and largest of the new stores, is the McCrory "Boutique Variety Store" in the center of the mall of the Walt Whitman Shopping Center in Huntington, Long Island. Opened on November 23, this 68,000 square foot store exceeded sales objectives for the Christmas season and received wide-spread and favorable customer comment. It presents a gay atmosphere

with a broad range of merchandise lines and an extension of the usual variety store assortments into distinctive and higher priced items that have proven both salable and profitable. The most successful innovations in the Walt Whitman Store will be adapted to future new stores and rehabilitation projects.

In the Mobile Division, 1962 saw the completion of the conversion of all but six of its 46 stores to Gulf Mills Discount Stores. These stores, in the 6,000 to 15,000 square foot range, are modern stores in generally fair and good locations. The conversion to a discount image strongly oriented to soft lines has stimulated sales volume.

In addition to the above mentioned store developments, other carefully planned programs were continued during the past year; this report touches upon a few highlights:

1. The Division continued its emphasis on development of distinctive private brand merchandise packaged under the McCrory label. A complete line

Attractive exterior—Ft. Lauderdale, Florida.





Modern, easy to shop, display of merchandise.

of cosmetics under the exclusive "Loveland" name was introduced during 1962 and has enjoyed excellent consumer acceptance by reason of quality, value and distinctive packaging and display.

2. The greatest emphasis has been placed upon our major program of developing for the Division a highly streamlined distribution system. This program has proceeded on schedule and the construction of our 750,000 square foot combination master and regional distribution center at York, Pennsylvania has been completed. This facility is discussed in some detail below in this report.

3. During 1962, the McCrory Corporation Charge Plan was installed in Orlando, Florida, in greater New York, and in Dallas on a test basis.

4. Key executive additions during 1962 included the appointment of George A. Richner as Senior Vice President in charge of store operations and of M. Edward Reeber as Financial Vice President of the Division. Mr. Richner was Executive Vice President of Southern Department Stores, with earlier experience with Butler Brothers and Montgomery Ward. Mr. Reeber was formerly comptroller of the Kroger Company's Pittsburgh division. Rolf O. Kristiansen has been named Vice President in Charge of Distribu-

tion Centers and will be responsible for operation of the complete distribution system. He was Vice President and Assistant to the President of the Division, and formerly senior buyer of stationery.

The development of store manager personnel qualified to manage expanded and traded-up stores has been given prime attention. In addition, an extensive program was initiated in 1962 for the recruiting, selection and training of potential store managers.

We look ahead with great encouragement to 1963 and 1964, when the carefully planned programs and innovations of the past two years will yield even greater profits.



"Boutique Shop" as well as everything for your daily needs.

NATIONAL SHIRT SHOPS



Ft. Worth, Texas. Nighttime display of highly styled men's and boys' wear.

NATIONAL SHIRT SHOPS DIVISION

Haberdashery—quality and value for father and son.



The National Shirt Shops division had an outstanding year in 1962 with a record volume of sales well above the average of comparable stores in its field of merchandising, and profits almost double those for 1961. The spring, summer and early fall months were especially successful with one of the best back-to-school seasons we have ever enjoyed.

We look forward with confidence to further gains in 1963, and for 1962 extend special thanks to all our 2400 employees who have worked so tirelessly for the National Shirt Shops.

It was a year of expansion with the opening of 11 new stores, all in selected shopping centers across the country. Six unprofitable stores were closed, five of which were in down-town locations. Sixty-six of our 158 National Shirt Shops are located in high-traffic shopping centers in expanding population areas. Such



Suits and jackets, slacks and shirts attractively displayed.

cities as Waterbury, Conn., Sacramento, Calif., El Paso and Abilene, Texas, saw modern, attractive new stores open with the finest in men's and boy's wear. Top quality merchandise at most desirable prices, beautifully styled in a wide range of fashion items, is displayed and sold to fathers and sons from coast to coast. Selected merchandise, often based on the climate and customs indigenous to the local scene, is locally offered to meet the needs of each community. A number of stores, which formerly did not carry boy's wear, added young men's clothing, sportswear and haberdashery to satisfy the increasing demands of our newly clothes-conscious youth.

The expanding McCrory Credit Plan was introduced to a larger number of stores in this division and continues to be extremely successful in developing new and satisfied customers.



Sportswear of all types, colors and sizes for style-conscious men and boys.

OKLAHOMA TIRE & SUPPLY



Automobile accessories and home appliances highlight the windows in Great Bend, Kansas.

OTASCO-ECONOMY STORES DIVISION

Tires for dad, or toys for boys at attractive prices.



1962 was the best year in Otasco's history. Wholesale and retail sales surpassed all expectations; profits too, followed the same pattern and were significantly higher than for 1961. It was also a year of new assignments and experiences for the Otasco team.

Seven new Company stores were opened and one was closed. Eighteen new Dealer stores were established and four were discontinued. At year-end, 130 Company stores and 255 Dealer stores were in operation. Twenty new Company units have been projected for 1963, several of which will be combined McCrory-Otasco units. We expect to establish a minimum of twenty Dealer stores this year.

Our most important assignment for 1962 was the merging of Economy Auto Stores into Otasco to make the two operate as one under Otasco's policies, methods and procedures. This required a step-by-step approach to the problems of retraining all personnel, coordinating all merchandise, rearranging physical store layouts and remodeling and re-laying out of the warehouse. Otasco Supervisory staff members worked in the field side-by-side with Economy Supervisors

ECONOMY AUTO



Opened Nov. 28, 1962 at Greenville, S.C. Tents, tennis balls or television sets are temptingly displayed.

detailing everyone's responsibility as to each problem area, and introducing the incentive sales program to store personnel.

The well-formulated plans worked, and the remarkable sales and profit increases for 1962 are now history. We expect further improvement in 1963.

Another innovation with significant implications for the future has been the development of combination variety-automotive stores. Personnel of the Otasco division and from the McCrory-McLellan-Green division were selected for a 60-day concentrated training program, in the variety and automotive departments, which began on December 1st. These men will emerge as combination store managers, assistant variety department managers, or Otasco departmental managers.

Our personnel have accepted the challenge of this most competitive retailing area, and have dedicated themselves to the task of bettering competition with improved knowledge, merchandising and service. We wish to thank all of our more than 1500 employees for their unstinting efforts and magnificent cooperation, and the supervisory staff for its never-failing assistance and encouragement.



Washers and dryers, stoves and freezers are part of a vast selection of quality merchandise at money-saving prices.

McCRORY

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1962

ASSETS

CURRENT ASSETS:

Cash	\$20,646,517
Accounts receivable (less reserves of \$1,301,707)—	
Customers' accounts	\$ 4,786,033
Equity in installment accounts sold (the uncollected balances of which amount to \$24,072,692)	4,383,100
Other, including \$4,000,000 notes receivable from unconsolidated subsidiary (Notes 1 and 10)	<u>6,092,465</u> 15,261,598
Merchandise inventories (Note 5)	95,866,955
Prepaid insurance, taxes, rents, store supplies, etc.	2,418,815
Mortgages receivable (Note 2)	<u>1,696,000</u>
TOTAL CURRENT ASSETS	\$135,889,885

PROPERTY AND EQUIPMENT, at cost:

Store properties and warehouses (Note 2)	\$ 15,982,834
Furniture and fixtures and improvements to leased property	<u>144,173,560</u>
	\$160,156,394
Less—Accumulated depreciation and amortization	<u>75,007,995</u> 85,148,399

OTHER ASSETS:

Excess of purchase cost of 1,263,617 shares (96% ownership) of Lerner Stores Corporation common stock over underlying net equity at dates of acquisition, not at this date assigned to specific assets acquired (Note 3)	\$ 17,240,094
Debenture discount, less amortization of \$1,520,019	9,417,643
Net equity in subsidiary not consolidated (Notes 1 and 10)	1,207,428
Goodwill, less amortization of \$223,472	1,129,156
Mortgages and sundry receivables (Note 2)	1,627,109
Deferred charges	<u>1,352,854</u> 31,974,284
	<u>\$253,012,568</u>

The accompanying notes to consolidated financial

CORPORATION AND SUBSIDIARY COMPANIES

LIABILITIES AND SHAREHOLDERS' INVESTMENT

CURRENT LIABILITIES:

Current maturities of long-term debt (Note 4)	\$ 3,035,488
Accounts payable	36,115,106
Accrued expenses and sundry liabilities	17,905,562
Accrued Federal taxes on income	3,652,458
TOTAL CURRENT LIABILITIES	\$ 60,708,614

LONG-TERM DEBT, less current maturities (Note 4)	62,872,685
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DEFERRED ITEMS:

Deferred Federal income taxes	\$ 4,521,000
Other	1,061,648
	5,582,648

MINORITY INTEREST—in preferred (\$1,415,600) and common stock of Lerner Stores Corporation	2,987,710
--	-----------

SHAREHOLDERS' INVESTMENT (Notes 6 and 7):

Preferred stock, cumulative, \$100 par value, series issue, authorized 79,679 shares—	
3½ % series cumulative convertible, authorized 59,679 shares, outstanding 14,791 shares	\$ 1,479,100
\$6.00 cumulative convertible preference stock, \$100 par value—authorized 95,695 shares, outstanding 94,875 shares	9,487,500
Preference B stock, \$100 par value, series issue, authorized 246,176 shares—	
5½ % series, cumulative (subordinated and convertible) authorized 54,676 shares, outstanding 11,871 shares	1,187,100
4½ % series, cumulative (subordinated and convertible) authorized 145,544 shares, outstanding 124,672 shares	12,467,200
Common stock, \$.50 par value—authorized 15,000,000 shares, issued 5,977,279	2,988,640
Capital surplus (Note 6)	39,310,675
Earned surplus (Note 6)	67,869,039
	\$134,789,254
Less—698,197 common shares of treasury stock, at cost	13,928,343
	120,860,911
	<u>\$253,012,568</u>

statements are an integral part of the above balance sheet.

McCRORY

STATEMENT OF CONSOLIDATED NET INCOME

FOR THE YEAR ENDED DECEMBER 31, 1962

NET SALES—Merchandise, restaurant and concession	\$553,851,805
Cost of goods sold, buying and occupancy expenses, net of service charge income	\$400,349,935
General and Administrative Expenses	134,257,452
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION	<u>534,607,387</u>
Provision for depreciation and amortization	9,056,475
OPERATING PROFIT	<u>\$ 19,244,418</u>
OTHER EXPENSES (Net):	
Interest	\$ 6,131,599
Debenture discount	885,332
	<u>\$ 7,016,931</u>
Less—Investment income, earnings of subsidiary not consolidated (Note 1), and miscellaneous income (net)	2,226,870
PROFIT BEFORE PROVISION FOR INCOME TAX	<u>4,790,061</u>
PROVISION FOR FEDERAL INCOME TAXES	<u>\$ 5,397,882</u>
NET INCOME BEFORE ELIMINATION OF MINORITY STOCKHOLDERS' EQUITY IN EARNINGS OF LERNER STORES CORPORATION	<u>1,435,000</u>
Minority Stockholders' Equity in Earnings of Lerner Stores Corporation	150,856
NET INCOME APPLICABLE TO SHAREHOLDERS OF McCRORY CORPORATION	<u>\$ 3,812,026</u>
SPECIAL CREDIT—Gain on sale of store properties (Note 2)	1,560,837
NET INCOME AND SPECIAL CREDIT	<u>\$ 5,372,863</u>

The accompanying notes to consolidated financial statements are an integral part of the above statements.

CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1962

	EARNED SURPLUS	CAPITAL SURPLUS
BALANCE, December 31, 1961	\$68,510,275	\$36,169,606
ADD (DEDUCT):		
Net income and special credit	5,372,863	—
	<u>\$73,883,138</u>	<u>\$36,169,606</u>
Dividends paid during year:		
Common stock (\$.80 per share)	(\$ 4,341,731)	\$ —
3½ % series, cumulative convertible preferred stock (\$3.50 per share)	(68,909)	—
\$6 cumulative convertible preference stock (\$6.00 per share)	(571,710)	—
5½ % series, cumulative (subordinated and convertible) preference B stock (\$5.50 per share)	(71,740)	—
4½ % series, cumulative (subordinated and convertible) preference B stock (\$4.50 per share)	(594,127)	—
Dividends on preferred stock of Lerner Stores Corporation	(73,404)	—
	<u>(\$ 5,721,621)</u>	<u>\$ —</u>
Excess of par value of preferred and preference stock over \$.50 par value of 138,119 shares of common stock upon conversion thereof	\$ —	\$ 2,996,240
Excess of proceeds over stated value of common stock of Lerner Stores Corporation upon exercise of stock options	—	257,629
Excess of par value of 4½ % cumulative preference B stock reacquired over cost thereof	—	78,987
Excess of proceeds over par value of 1,283 shares of common stock issued upon exercise of warrants	—	25,018
Excess of cost of 53,155 shares of treasury stock issued under stock option plans over option price (Note 7)	(292,478)	—
Excess of cost of Lerner Stores Corporation common stock reacquired by Lerner over stated value thereof	—	(229,424)
Other	—	12,619
BALANCE, December 31, 1962	<u>\$67,869,039</u>	<u>\$39,310,675</u>

The accompanying notes to consolidated financial statements are an integral part of the above statements.

ARTHUR ANDERSEN & Co.

80 PINE STREET
NEW YORK 5

To the Shareholders of

McCrory Corporation:

We have examined the consolidated balance sheet of McCrory Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1962, and the related statements of consolidated net income and consolidated surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records of the Company and its wholly-owned subsidiaries and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Lerner Stores Corporation, whose net assets represent approximately 35% of the total net assets included in the consolidated financial statements, were not examined by us, but we were furnished with reports of other public accountants thereon.

In our opinion, based upon our examination and upon the reports of other public accountants referred to above, the accompanying consolidated balance sheet and the related statements of consolidated net income and consolidated surplus present fairly the financial position of McCrory Corporation and subsidiary companies as of December 31, 1962, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
March 29, 1963.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1962

(1) Principles of consolidation:

The accompanying consolidated financial statements as of December 31, 1962, reflect the consolidation of the accounts of Lerner Stores Corporation (whose common stock is 96% owned) and all wholly-owned subsidiaries except McCrory Credit Corporation, which commenced operations in 1962. The net equity of the credit subsidiary not consolidated is stated in the consolidated balance sheet at the amount of the Company's investment in the capital of such subsidiary plus net income in the amount of \$207,428 for the year ended December 31, 1962, which amount is included in McCrory consolidated net income. (See Note 10 for additional information on McCrory Credit Corporation.)

(2) Sale of certain store properties:

During 1962 the Company and certain wholly-owned subsidiaries entered into "sale and lease back" arrangements whereby a substantial portion of the companies' store properties and warehouses were sold, at independent appraisal values aggregating \$9,856,000 (including \$2,080,000 of purchase money mortgages), to subsidiaries of the Company's Employees' Retirement Plan. These properties were simultaneously leased back from the purchasers under net leases for a twenty-five year period. The profit on these sales, net of related expenses and Federal income taxes, amounted to \$1,560,837, which has been reflected as a special credit carried to earned surplus.

(3) Excess purchase cost of Lerner Stores Corporation common stock:

During 1961 and 1962, McCrory acquired 1,263,617 shares (96% ownership) of Lerner Stores Corporation common stock principally as the result of a tender offer made on August 10, 1961. A total of 206,768 of these shares was purchased for \$7,341,050 in cash and 1,056,849 shares were acquired in exchange for \$42,273,960 face amount of McCrory 5½% Sinking Fund Subordinated Debentures, plus warrants to purchase, through March 15, 1976, 1,585,274 shares of McCrory common stock at a price of \$20 per share. In accounting for the cost of the Lerner shares acquired in exchange for McCrory securities, the McCrory Board of Directors determined that its debentures be valued at 83% of the face amount of the debentures issued, and the warrants be valued at \$5 each. The aggregate cost of the investment in ownership of 96% of Lerner exceeded the McCrory equity in underlying Lerner net assets at dates of acquisition by \$17,240,094. This excess purchase cost, which has not at this date been assigned to specific assets acquired, has been recognized by the McCrory management to be similar in nature to intangibles which have not declined in value since date of acquisition. Accordingly, the McCrory management has adopted an accounting policy of not amortizing this excess purchase cost, so long as there is no recognized diminution in value of its investment in Lerner.

(4) Long-term debt:

Long-term debt at December 31, 1962, including maturities due within one year, consisted of the following:

	Total	Current Maturities	Long-term Debt
5½% sinking fund subordinated debentures, due 1976 (a)	\$36,551,960	\$ —	\$36,551,960
5.235% subordinated notes due in equal annual installments to 1971	16,076,560	1,786,284	14,290,276
3% sinking fund debentures due in 1967 (b)	4,478,000	78,000	4,400,000
Notes payable to bank (c)	4,000,000	500,000	3,500,000
Mortgages payable	2,725,653	234,204	2,491,449
4% notes due in equal annual installments to 1967	1,665,000	333,000	1,332,000
3¾% notes due in equal annual installments to 1966	411,000	104,000	307,000
	<u>\$65,908,173</u>	<u>\$3,035,488</u>	<u>\$62,872,685</u>

(a) Exclusive of \$5,722,000 redeemed (\$1,305,000 cancelled and \$4,417,000 held in treasury, available for sinking fund requirements). Sinking fund requirements in each year (which may be satisfied, through 1967, with the aforesaid debentures held in treasury) are as follows: 1965 and 1966 — \$1,024,224; 1967 through 1971 — \$2,048,448; 1972 through 1976 — \$3,277,517, with a final payment of \$12,290,687 due on August 14, 1976.

(b) Exclusive of \$522,000 in treasury. Sinking fund requirements are \$600,000 in each year to 1966 and \$2,600,000 at maturity.

(c) Of the notes payable to bank, \$500,000 are due in 1963, with interest at 3¾% per annum, and the balance of \$3,500,000 in 1964, with interest at 4% per annum.

The restrictive covenants of the indentures covering the 5½% sinking fund subordinated debentures and the 5.235% subordinated notes payable provide, among other matters, for the maintenance of specified amounts of working capital, as defined, and for certain limitations on indebtedness, as defined, which requirements at December 31, 1962, were met as follows:

(a) Consolidated working capital (as defined) which amounted to \$71,939,280 must be maintained at least equal to the unpaid principal amount of debentures outstanding, \$36,551,960.

(b) Consolidated current assets were 203% of consolidated current liabilities (as defined) as compared to the 175% requirement.

(c) Consolidated indebtedness (as defined) of \$48,582,000, which should not be in excess of 50% of consolidated net worth, was \$11,848,000 less than the maximum indebtedness allowed.

(5) Merchandise inventories:

Merchandise inventories, stated at the lower of cost or market, consist of the following:

Raw materials, including merchandise at contractors—at specific invoice cost or replacement cost	\$ 509,935
Merchandise in transit, at warehouses, and at restaurants—at cost	18,969,970
Merchandise in stores— at retail method	\$70,791,359
at first-in, first-out cost	5,595,691
	<u>76,387,050</u>
	<u>\$95,866,955</u>

(6) Preferred and preference stock and warrants:

At December 31, 1962, there were 523,035 shares of common stock reserved for the conversion of preferred and preference stock, as follows:

Class of Stock	Redemp- tion Price	December 31, 1962 Conversion Rate Common Shares For Preferred or Preference	Shares of Common Stock Reserved
3½% cumulative convertible preferred . . .	\$104	5 for 1	73,955
\$6 cumulative convertible preference . . .	115	3/14 for 1	20,330
5½% cumulative preference B	100	6-1/9 for 1	72,545
4½% cumulative preference B	100	2-6/7 for 1	<u>356,205</u>
			<u>523,035</u>

In addition, 2,673,467 shares of common stock were reserved for the exercise, at \$20 per share, of warrants (expiring in 1976) issued in connection with the 1961 merger of H. L. Green and the 1961 purchase of Lerner stock.

Pursuant to certain restrictions in connection with the authorization of preferred stock, capital and earned surplus at December 31, 1962, in the approximate amount of \$16,000,000 (including \$14,419,444 restricted as the result of purchase of McCrory preference and common stock) are restricted as to future payments of dividends on the common stock or purchase or redemption of shares of its stock.

(7) Stock option and employees' stock purchase plans:

Under the Company's restricted stock option plans adopted in 1960 for key employees and officers, 725,000 shares of common stock were reserved for the issuance of options at 95% of the fair market value on the dates of grant, of which options for 693,750 shares were outstanding at the beginning of the year at prices ranging from \$11.88 to \$20.90. No options were issued during the year, and options for 23,000 shares were cancelled during the year. Options to purchase 39,550 shares were exercised during the year at an aggregate option price of \$488,739. At December 31, 1962, options as to 631,200 shares were outstanding, of which options to purchase 195,420 shares were exercisable; 49,400 shares remained available for future option grants under the plans.

A restricted stock option plan adopted during 1961 authorized the grant to key employees and officers of options to purchase 350,000 shares of common stock at 95% of the fair market value on the dates of grant. Options to purchase 331,450 shares have been issued under this plan (including 74,050 issued and 16,050 cancelled in 1962) at prices ranging from \$18.05 to \$22.82. At December 31, 1962, options as to 315,000 shares were outstanding, none of which were exercisable at that date; 35,000 shares remain available for future option grants under this plan.

Options granted are exercisable for a maximum of ten years. Options generally become exercisable to the extent of 20% each year on and after the anniversary dates of the grants with respect to the 1960 plans, and 20% each year on and after the second anniversary dates of the grants with respect to the 1961 plan. Options may not be sold, transferred, assigned, pledged or disposed of by the optionee except by will or laws of inheri-

tance. In the event of termination of employment by resignation, disability or death, all options will expire within varying periods up to the full term of such options.

Employee stock purchase plans adopted during 1960 (115,000 shares) and 1961 (75,000 shares) permit the grant of rights to purchase a total of 190,000 shares of common stock at 85% of the fair market value thereof on the dates of grant. At December 31, 1961 and 1962, rights for 80,820 shares under the 1960 plan had been subscribed, including rights for 5,121 shares cancelled during 1962. Rights to purchase 13,605 shares were exercised during 1962, and at December 31, 1962, rights for 39,301 shares were available for subscription, and 62,094 shares were under subscription at prices ranging from \$10.63 to \$11.48. At December 31, 1962, the 75,000 shares under the 1961 Plan had not been offered for subscription, but in January, 1963, rights for 49,180 of such shares were subscribed.

(8) Pension plans:

The separate noncontributory retirement plans covering McCrory-McLellan and former Green employees were combined into a single plan to cover eligible employees of the McCrory-McLellan-Green Division, effective January 1, 1962. As under the separate plans, the cost of the continuing plan will be met, as required, by periodic contributions to the successor trust. The amounts accumulated in the trust fund, or previously accrued in the consolidated financial statements in respect of the McCrory-McLellan-Green plan, exceed the actuarial liability as computed by the consulting actuary. For this reason, no provision for costs under this plan was reflected in the statements of consolidated net income for the calendar years 1961 or 1962.

Contributions of \$500,000, net of Federal income tax benefit, required under the terms of other noncontributory retirement plans and profit sharing plans for employees of Oklahoma Tire and Supply and National Shirt Shops Divisions, and Lerner Stores Corporation, paid or accrued during 1962, have been reflected in the accompanying statement of consolidated net income.

(9) Lease commitments:

At December 31, 1962, the minimum annual rentals upon property leased to the Company and its subsidiaries under leases expiring after December, 1965, amount to approximately \$23,000,000, plus, in certain instances, real estate taxes, insurance, etc.

The Company remains contingently liable for the Butler Brothers and Metropolitan Stores liabilities assumed by the respective purchasers of their assets in prior years, including liability for rentals aggregating approximately \$28,000,000 at December 31, 1962, under long-term leases expiring 1963-1985, transferred to the purchasers. The Company has received from the purchasers valid and enforceable agreements of assumption of liabilities and indemnification in form satisfactory to counsel for the Company.

(10) McCrory Credit Corporation:

McCrory Credit Corporation, a wholly-owned subsidiary of McCrory Corporation, was organized to purchase retail installment sales paper from McCrory and subsidiaries and affiliates. At the end of 1962, McCrory Credit expanded its scope by organizing a separate leasing subsidiary to acquire equipment to lease to the McCrory-McLellan-Green Division of McCrory Corporation under a 15-year lease agreement dated December 1, 1962.

At December 31, 1962 the credit corporation and its subsidiaries had invested \$21,200,000 in customers' deferred payment accounts of McCrory and subsidiaries and affiliates and an additional \$1,000,000 in equipment purchased for rental. Financing of the foregoing had been provided principally from (1) \$1,000,000 of equity funds and \$4,000,000 in subordinated short term loans from McCrory Corporation and subsidiaries, plus (2) \$17,150,000 in 4½% bank loans on unsecured notes of the credit corporation.

McCRORY VILLAGE

McCrory Village represents a unique "Specialty Store" approach combining units of the various divisions in one large selling area, permitting free flow of customers through all "individual shops". It is unique in that no other organization can develop such an operation wholly within a single-company framework.

The McCrory Village, therefore, is not a discount operation . . . is not a department store . . . is not a large chain store. Rather, it is a series of specialty stores arranged for customer convenience, making available under one roof a wide range of merchandise for the entire family.

October 1962 saw the opening of the first 40,000 square foot "Junior" McCrory Village in Northport,

Alabama, near Tuscaloosa. Here, all of our Divisions (soft lines and hard lines) are in one selling area, managed by one manager who has been trained in the merchandising, inventory control, and ordering procedures of each separate division.

We intend to open our second unit in May 1963 in Poughkeepsie, New York. This will be a much larger operation (approximately 100,000 square feet) and will contain a complete Lerner Shop, National Shirt Shop, Variety Store and Automotive and Home Appliance store under one roof.

Three additional Villages are already on the drawing board, and the possibility exists that they may be opened in the year 1963.



McCrory Village at Poughkeepsie, New York. Inset picture shows "The Villager," a family restaurant styled in attractive Early American decor, where it's convenient for shoppers to dine.



YORK DISTRIBUTION CENTER

YORK, PENNSYLVANIA

On March 20, 1963, the official opening of our new distribution center took place at York, Pennsylvania.

The York Distribution Center is situated in the foothills of the Allegheny Mountains adjoining the main line tracks of the Pennsylvania Railroad. York was selected as the site after intensive surveys because it offered the best transportation facilities by truck and rail; a good labor supply; good community relations; and is a central point for the 373 stores it will serve.

The entire center, 18 acres of structure under one roof, as large as 16 football fields, is located on 60 acres of land adjoining U.S. Route 30 (Lincoln Highway). It takes fifteen minutes to walk the width of the facility and thirty minutes to walk its length. Supervisory personnel require a motor scooter and maintenance trucks in order to expedite their operations.

The magnitude of this operation dwarfs most similar facilities in the retail field. It has a capacity of approximately 750,000 square feet of enclosed space on one level for receiving, storing, checking, handling and shipping over 30,000 items as diverse as thimbles and T.V. sets. Modern merchandising necessitates a faster, more automatic flow of merchandise to the retail counter, especially with increased stock turnover.

With modern industrial design, automatic ma-



chinery, computers, time-study and systems programs scientifically worked out, we will be able to deliver products to the point of purchase at a lower cost than ever before. Modern automation at York eliminates a major portion of in-store paper work and merchandise handling for the stores it will service, and thus frees store managers and personnel for greater periods of time to devote to the stores' main function—SALES. It will also sharply reduce the space needed for in-store storage and handling of merchandise.

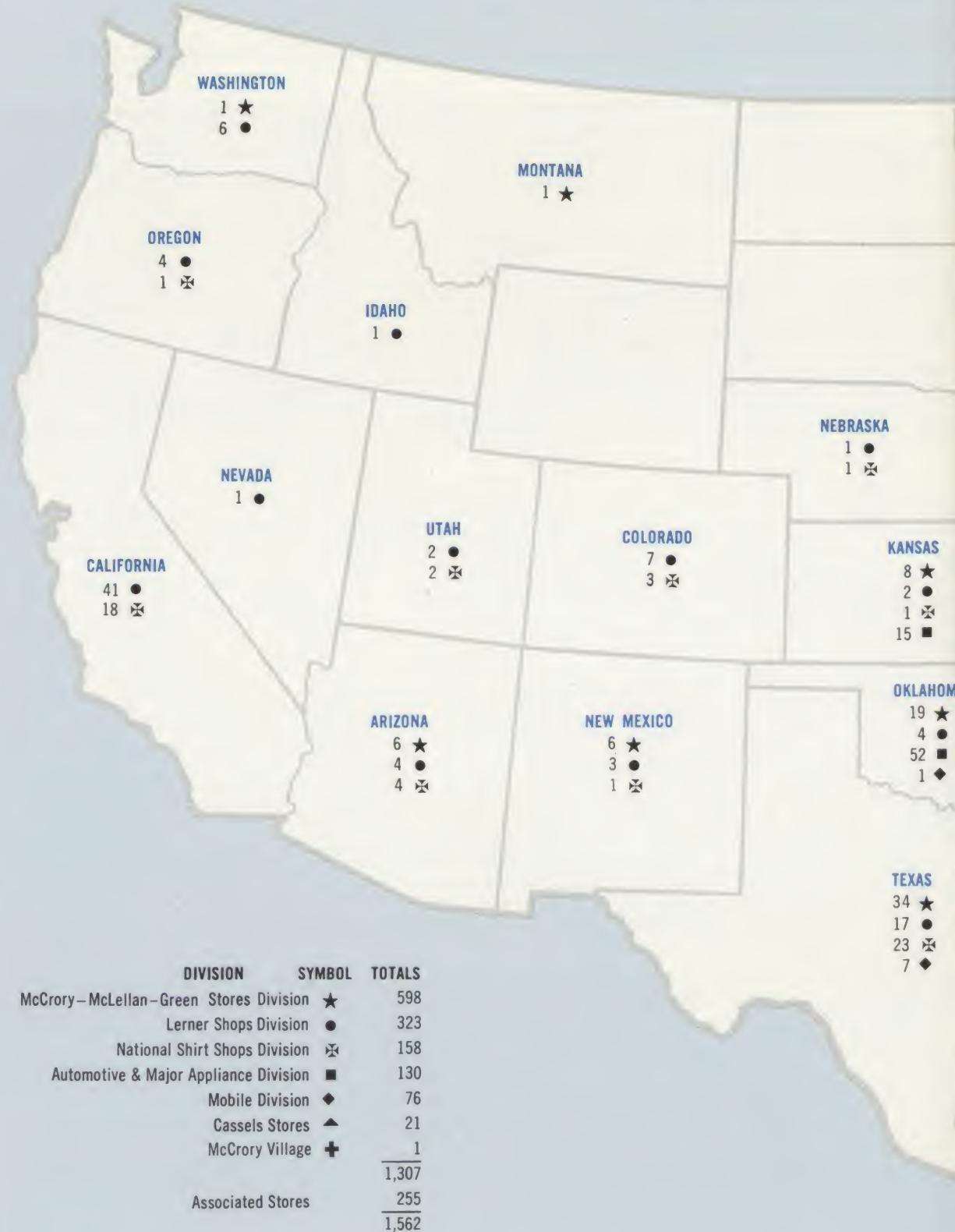
This is our first retail variety store oriented distribution center and, as such, a contribution to American business technology. It is designed to meet all the needs of store management—merchandising, buying, inventory control, vendor delivery and supplier co-ordination, store-level merchandising and inventories. Internal operations contain many unique features, including:

- ▶ 1. Centralized price marking on a chain-wide basis, utilizing new, advanced, mechanized techniques and equipment.
- ▶ 2. An overhead conveyor system incorporating three features:
 - a) Storage of empty containers.
 - b) Delivery of such containers to order fillers.
 - c) Delivery of corrugated paper refuse to automatic disposal.
- ▶ 3. The first overhead automatic touch-grab container clamp.
- ▶ 4. Automatic dispatch of filled containers by electronic mechanism to individual truck routes.
- ▶ 5. Three automatic, driverless tractor units with custom panel board programming incorporated into each for automatic dispatch to pre-determined locations.
- ▶ 6. Complete interchangeability, through mechanical means, of five powered truck loops.
- ▶ 7. The first infloor tow lines which provide, by mechanical means, both left-hand and right-hand switching of any truck.
- ▶ 8. The first lift truck where the driver rides with the load for unobstructed load pick-up or storage and individual item selectivity, regardless of location or elevation.
- ▶ 9. Full provision for automatic handling and disposal of 12 to 15 tons of corrugated paper refuse per day.

We are proud of this new facility, a forerunner of others we are planning for the Southeast and Southwest.

McCRORY

1,562 Stores Throughout



CORPORATION

The U. S. and Puerto Rico



ASSOCIATED STORES

Alabama	8
Arkansas	56
Florida	2
Georgia	44
Kansas	25
Louisiana	1
Missouri	19
North Carolina	1
Oklahoma	81
South Carolina	4
Tennessee	12
Mississippi	1
Texas	1





Mc C R O R Y C O R P O R A T I O N

711 FIFTH AVENUE
NEW YORK 22, N.Y.